

HAIG POINT UTILITY, INC.

DOCKET NO. 2005-34-W/S

BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

Testimony Prepared: June 13, 2005

Hearing Date: July 18, 2005

PRE-FILED TESTIMONY OF THOMAS F. CONNOR

THIS TESTIMONY IS FILED PURSUANT TO THE ORDER OF THE PUBLIC SERVICE COMMISSION DATED APRIL 11, 2005. IN ACCORDANCE WITH THE PUBLIC SERVICE COMMISSION'S RULES OF PRACTICE AND PROCEDURE AND THE AGREEMENT OF THE APPLICANT, THE COMMISSION, THE OFFICE OF REGULATORY STAFF, AND THE INTERVENOR, THE APPLICANT RESERVES THE RIGHT TO PROVIDE REBUTTAL TESTIMONY TO THE TESTIMONY PRE-FILED PURSUANT TO SAID ORDER BY THE COMMISSION STAFF, ORS, AND INTERVENORS AND TO ANY TESTIMONY PROVIDED AT OR BEFORE THE JULY 18, 2005 HEARING AND THE JULY 14, 2005 PUBLIC "NIGHT" HEARING.

1 **BY MR. WALKER: Please state your name for the record.**

2

3 BY MR. CONNOR: Thomas F. Connor.

4

5 **BY MR. WALKER: Please state your business address.**

6

7 BY MR. CONNOR: 3 Paragon Drive, Montvale, NJ 07645

8

9 **BY MR. WALKER: What is your occupation?**

10

11 BY MR. CONNOR: I am the Controller of International Paper Realty Corporation and
12 serve as the Treasurer of Haig Point Utility Company, Inc. ("HPU").

13

14 **BY MR. WALKER: Please state your educational background.**

15

16 BY MR. CONNOR: I received a Bachelor of Science in Economics from the University
17 of Pennsylvania in 1971, majoring in accounting.

18

19 **BY MR. WALKER: Have you completed additional training and/or education**
20 **since your graduation from the University of Pennsylvania?**

21

22 BY MR. CONNOR: I became a licensed Certified Public Accountant in 1971, and am
23 currently licensed as a Certified Public Accountant in the state of Texas.

1 **BY MR. WALKER: Please state your work history.**

2

3 BY MR. CONNOR: I was employed as an auditor by Ernst and Ernst, a public
4 accounting firm, from 1971 to 1974. From 1974 to 1985, I was employed in various
5 financial positions in private industry. From 1985 to 2000, I held various financial
6 positions at Champion International, a company acquired by International Paper. From
7 2000 to present, I have been the Controller of International Paper Realty Corporation.
8 Soon thereafter, I became the Treasurer of HPU.

9

10 **BY MR. WALKER: Can you describe the relationship between International Paper**
11 **Realty Corporation and Haig Point Utility Company, Inc.?**

12

13 BY MR. CONNOR: Yes. International Paper Realty Corporation and HPU are separate
14 corporations. The original developer of Haig Point Plantation was International Paper
15 Realty Corporation of South Carolina, which changed its name several years ago to Haig
16 Point, Inc. Haig Point, Inc. (formerly known as International Paper Realty Corporation
17 of South Carolina) is a wholly owned subsidiary of International Paper Realty
18 Corporation. HPU is a wholly owned subsidiary of Haig Point, Inc. HPU is the public
19 utility providing water and sewer services to the property owners of Haig Point
20 Plantation.

21

1 **BY MR. WALKER: Could you provide some background on Haig Point Plantation**
2 **and HPU?**

3
4 BY MR. CONNOR: Haig Point Plantation is located on Daufuskie Island in southern
5 Beaufort County. Haig Point Plantation is Daufuskie's largest development, totaling one
6 thousand and forty acres. It is located in the northeast portion of the island. All
7 developments on Daufuskie are provided potable water from the Upper Floridian aquifer
8 by wells of varying capacities. HPU provides the water supply for Haig Point Plantation,
9 including all residential and commercial potable and irrigation water. HPU's system is
10 currently composed of two five hundred gallon per minute groundwater wells. In
11 addition, construction is underway on an additional groundwater well, an elevated water
12 storage tank, and associated equipment. There is a wastewater treatment plant on the
13 island which services both Haig Point Plantation and the Melrose development.

14
15 **BY MR. WALKER: What are your duties as they relate to HPU?**

16
17 BY MR. CONNOR: I am the Treasurer of HPU, a corporate officer. International Paper
18 Realty Corporation provides some back office services for HPU. In that regard, I provide
19 much of the same functions for HPU as I do for International Paper Realty Corporation.
20 Specifically, I direct the financial affairs of HPU and prepare financial analyses of
21 operations, including financial statements with supporting schedules, for the guidance of
22 HPU management. In addition, I am responsible for HPU's financial plans and policies,
23 its accounting practices, the maintenance of its fiscal records, the preparation of financial

1 reports, and the supervision over general accounting, property accounting, internal
2 auditing, cost accounting, and budgetary controls.

3

4 **BY MR. WALKER: How many employees work at HPU?**

5

6 BY MR. CONNOR: Two full-time employees, including one manager and one
7 technician, and three part-time employees. The total number of full-time equivalent
8 employees ("FTEs") is three and one-half.

9

10 **BY MR. WALKER: Who are the directors of HPU?**

11

12 BY MR. CONNOR: Leonard H. Ronnie, Jr. and Sabina T. Finnegan.

13

14 **BY MR. WALKER: Who are the officers of HPU?**

15

16 BY MR. CONNOR: Leonard H. Ronnie, Jr., President, Matthew Mitchell, Secretary-
17 Assistant, and myself as Treasurer.

18

19 **BY MR. WALKER: Please give an overview of the HPU system and the customers**
20 **served by it.**

21

22 BY MR. CONNOR: A total of approximately two hundred and five residences have
23 been built in Haig Point Plantation and are connected to the water system, along with

1 clubhouse facilities, golf facilities, public restrooms, an inn, various commercial
2 facilities, the wastewater treatment plant, the public school, pools, an equestrian center, a
3 golf cart cleaning area, a construction company, and the golf course maintenance area.
4 HPU is currently permitted to withdraw 111.191 million gallons per year from the two
5 existing groundwater wells. This withdrawal limit, established in the late 1980s and
6 remaining in place to date, takes into account both future growth at Haig Point, as well as
7 the potential for and probability of the tying in of other developments into the HPU
8 system. In 2004, HPU withdrew 66.693 million gallons under its current permit.

9
10 **BY MR. WALKER: Can you describe generally the development plan for Haig**
11 **Point Plantation?**

12
13 BY MR. CONNOR: Yes. Additional residential construction has been steady and has
14 been increasing in the last twelve months. A total of seven hundred thirty-five residences
15 are contemplated. A total of fifty-six unsold lots remain. All of these customers are or
16 will be located within the physical confines of Haig Point Plantation and will be served
17 by HPU.

18
19 **BY MR. WALKER: Have nearby developments approached HPU about tying into**
20 **the water system?**

21 BY MR. CONNOR: Yes. In an effort to stem a proliferation of small utilities, the South
22 Carolina Department of Health and Environmental Control has continually pushed the
23 idea of an island-wide water system. HPU has been approached by Cedar Cove

1 development and the Webb Tract developers about the possibility of tying into the HPU
2 system.

3
4 **BY MR. WALKER: In connection with your duties to HPU, have you participated**
5 **in the decision to apply for a rate increase to the South Carolina Public Service**
6 **Commission?**

7
8 BY MR. CONNOR: I have.

9
10 **BY MR. WALKER: Why was the decision made to apply for a rate increase?**

11
12 BY MR. CONNOR: There were several reasons underlying the decision to apply for a
13 rate increase. First, the current rates do not enable HPU to cover the cost of providing
14 service and earn a fair return on its investment. HPU cannot continue to provide services
15 and survive financially utilizing the current rate structure. Second, the proposed rate
16 structure is beneficial to HPU's customers because it would result in rates that are lower
17 than would otherwise be imposed using the current cost of providing services. In other
18 words, the proposed rate structure places the risk of success of the real estate venture on
19 the developers, not on the customers. Finally, in an effort to promote water conservation
20 in HPU's system area, the proposed rate structure would eliminate the current water and
21 sewer usage allowance of 22,500 gallons per quarter and apply consumptive rates to all
22 water and sewer usage. Because irrigation withdrawal rates are higher than expected, the
23 proposed irrigation rates contain a three-tiered inclining rate structure which charges

1 customers higher rates for greater usage. The goal of water conservation is a high
2 priority for HPU.
3

4 **BY MR. WALKER: When was the last time HPU applied for a rate increase?**

5
6 BY MR. CONNOR: HPU has not applied for a rate increase since its initial rate filing in
7 1988, approximately seventeen years ago.
8

9 **BY MR. WALKER: What is availability billing?**

10
11 BY MR. CONNOR: Availability Billing is an annual charge paid by lot owners who have
12 not yet been connected to the water system to reserve system capacity and ensure service
13 is available when they become a connected customer.
14

15 **BY MR. WALKER: What was your responsibility with regard to the rate**
16 **application?**

17
18 BY MR. CONNOR: I provided Guastella Associates with financial data necessary for
19 their rate study. I also provided responsive information and data to the Office of
20 Regulatory Staff, as requested in formal data and audit requests.
21

22 **BY MR. WALKER: What specific data did you provide to Guastella Associates for**
23 **the rate study performed?**

1 BY MR. CONNOR: I supplied the following information:

2
3 HPU's Trial Balance Sheet for the year ending June 30, 2004, including summary page
4 and detail [*APPLICANTS EXHIBIT 1*]

5
6 HPU's Fixed Asset Summary [*APPLICANT'S EXHIBIT 2*]

7
8 HPU's Income Statement for both water and sewer for the period ending June 30, 2004,
9 which is included within **APPLICANT'S EXHIBIT 1**

10
11 Data regarding operating revenue detail breakdowns (i.e. residential, commercial,
12 irrigation, availability billing)

13
14 Data regarding operating expense detail breakdown (i.e. wages/benefits,
15 repair/maintenance, supplies, outside services, telephone, office equipment rental, bad
16 debt, electricity, other)

17
18 Data regarding depreciation, amortization, revenue taxes, property taxes, payroll taxes,
19 and income taxes (state and federal)

20
21 Data regarding the number of water and sewer bills issued on a quarterly basis, broken
22 down between residential, irrigation, and commercial customers, including annual usage,
23 quarterly base charges, and usage charges

1 Data regarding the number of availability billings issued on a quarterly basis
2
3 Data regarding the number of tap fees from 1987 to present, broken down into residential,
4 commercial, residential irrigation, and commercial irrigation
5
6 Detailed quarterly billing data for the year ending June 30, 2004
7
8 Billing analysis data for the year ending June 30, 2004-Irrigation Usage
9
10 Data regarding development plans for Haig Point Plantation
11
12 Data regarding proposed tie-in of Cedar Cove development to HPU system
13
14 Data regarding agreement underlying the formation of the Haig Point/Melrose
15 Wastewater Treatment Company, Inc.
16
17 **BY MR. WALKER: Please describe the information you provided Guastella**
18 **Associates regarding development plans for Haig Point Plantation.**
19
20 BY MR. CONNOR: This is the same information I provided in my previous response to
21 you. Basically, in addition to the commercial, club, golf, school, and recreational
22 facilities already constructed and connected to the HPU system, a total of seven hundred
23 thirty-five residences are contemplated. HPU will serve all of these residential and

1 commercial customers.

2
3 **BY MR. WALKER: Please explain the data you provided Guastella Associates**
4 **regarding the proposed tie-on of the Cedar Cove development to the HPU system.**

5
6 BY MR. CONNOR: For several years, the South Carolina Department of Health and
7 Environmental Control ("DHEC") has pushed a movement toward an island-wide water
8 system, as opposed to a proliferation of small water utilities. Subject to the South
9 Carolina Public Service Commission's approval, HPU will increase its service area in
10 order to provide water and sewer services to the Cedar Cove development. The proposed
11 arrangement would require HPU to provide seventy-two hundred (7200) gallons of
12 potable water per day to Cedar Cove. This equates to four hundred (400) gallons per day
13 for each of eighteen (18) residential sites to be developed and a total of two million six
14 hundred twenty eight thousand (2,628,000) million gallons per year.

15
16 **BY MR. WALKER: Please explain the data you provided Guastella Associates**
17 **regarding the joint Haig Point/Melrose wastewater treatment plant.**

18
19 BY MR. CONNOR: In the late 1980s, pursuant to agreement and in an effort to move
20 towards an island-wide water system, Haig Point and Melrose joined together to form the
21 Haig Point/Melrose Wastewater Treatment Company, Inc. The wastewater treatment
22 plant operated by this company was originally permitted to operate in 1987. The

1 company is sixty percent owned by Haig Point, Inc. and forty percent owned by Melrose
2 Utility Company, Inc.

3

4 **BY MR. WALKER: To the best of your knowledge and belief, was the extensive**
5 **data supplied to Guastella Associates you just described true and accurate?**

6

7 BY MR. CONNOR: Yes.

8

9 **BY MR. WALKER: To the best of your knowledge and belief, was the data**
10 **supplied to Guastella Associates you just described incorporated within the**
11 **schedules and work papers submitted in support of the rate application?**

12

13 BY MR. CONNOR: Yes.

14

15 **BY MR. WALKER: Was the information and data you supplied in response to the**
16 **Office of Regulatory Staff's data and audit requests true and accurate to the best of**
17 **your knowledge and belief?**

18

19 BY MR. CONNOR: Yes.

20

21 **BY MR. WALKER: Does this conclude your testimony/?**

22

23 BY MR. CONNOR: Yes.